



Basic Financial Statements



STATEMENT OF NET ASSETS

June 30, 2004

(In Thousands)

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit First 5 Commission
ASSETS				
Current assets:				
Equity in pooled cash and investments	\$ 728,287	69,877	798,164	165,229
Cash with fiscal agent	17,386		17,386	
Collections in transit	9,069	659	9,728	
Imprest cash	518	2	520	
Investments	18,786		18,786	
Receivables, net	386,439	1,387	387,826	7,478
Taxes receivable, net	34,488		34,488	
Internal balances	(9,106)	9,106		
Inventory of materials and supplies	9,476		9,476	
Deferred charges	1,792		1,792	
Deposits with others	1,494		1,494	
Prepaid items	1,295		1,295	26
Restricted assets:				
Cash with fiscal agent	59,134		59,134	
Investments	27,300		27,300	
Total current assets	1,286,358	81,031	1,367,389	172,733
Noncurrent assets:				
Restricted assets:				
Investments	339,922		339,922	
Investments	24,885		24,885	
Deferred charges	26,999		26,999	
Capital assets:				
Land, construction and contracts in progress	437,196	26,193	463,389	
Other capital assets, net of depreciation	2,243,374	55,745	2,299,119	
Total noncurrent assets	3,072,376	81,938	3,154,314	
Total assets	4,358,734	162,969	4,521,703	172,733
LIABILITIES				
Current liabilities:				
Accounts payable	88,704	1,038	89,742	3,211
Accrued payroll	61,688	270	61,958	
Accrued interest	20,943		20,943	
Deferred revenue	60,301	280	60,581	
Current portion of long-term obligations	109,819	201	110,020	
Total current liabilities	341,455	1,789	343,244	3,211
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	2,191,358	3,337	2,194,695	
Total liabilities	2,532,813	5,126	2,537,939	3,211
NET ASSETS				
Invested in capital assets, net of related debt	2,324,806	78,485	2,403,291	
Restricted for:				
Capital projects	6,249		6,249	
Debt service	77,640		77,640	
Inactive landfill closure	23,170		23,170	
Other purposes	62,924		62,924	169,522
Unrestricted	(668,868)	79,358	(589,510)	
Total net assets	\$ 1,825,921	157,843	1,983,764	169,522

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(In Thousands)

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 234,759	93,143	7,353	832
Public protection	1,173,532	206,679	196,444	18,662
Public ways and facilities	160,344	22,536	49,480	31,322
Public assistance	1,052,911	6,245	855,723	
Health and sanitation	564,796	84,650	228,254	250
Recreational and cultural	26,493	6,141	990	14,021
Education	31,722	2,567	839	2,270
Interest expense	91,897			
Total governmental activities	3,336,454	421,961	1,339,083	67,357
Business-type activities:				
Sanitation Districts	15,828	15,765		683
Other Enterprise Funds	11,378	12,181	4,153	856
Total business-type activities	27,206	27,946	4,153	1,539
Total primary government	3,363,660	449,907	1,343,236	68,896
Component unit:				
First 5 Commission	29,760		41,063	
Total component unit	\$ 29,760		41,063	

General revenues:
 Taxes:
 Property taxes
 Franchise taxes
 Contributions from State
 State allocation of sales tax & vehicle license fees
 Interest
 Transfers
 Total general revenues and transfers
 Change in net assets
 Net assets - beginning (Component Unit restated)
 Net assets - ending

(Cont)

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

Net (Expense) Revenue and Changes in Net Assets				Functions/Programs
Primary Government		Component Unit		
Governmental Activities	Business-Type Activities	Total	First 5 Commission	
(133,431)		(133,431)		Primary government:
(751,747)		(751,747)		Governmental activities:
(57,006)		(57,006)		General government
(190,943)		(190,943)		Public protection
(251,642)		(251,642)		Public ways and facilities
(5,341)		(5,341)		Public assistance
(26,046)		(26,046)		Health and sanitation
(91,897)		(91,897)		Recreational and cultural
				Education
				Interest expense
				Total governmental activities
	620	620		Business-type activities:
	5,812	5,812		Sanitation Districts
	6,432	6,432		Other Enterprise Funds
				Total business-type activities
(1,508,053)	6,432	(1,501,621)		Total primary government
			11,303	Component Unit:
				First 5 Commission
			11,303	Total component unit
				General revenues:
				Taxes:
\$ 496,917		496,917		Property taxes
4,200		4,200		Franchise taxes
				Contributions from State
625,577		625,577		State allocation of sales tax & vehicle license fees
18,452	417	18,869	651	Interest
673	(673)			Transfers
1,145,819	(256)	1,145,563	651	Total general revenues and transfers
(362,234)	6,176	(356,058)	11,954	Change in net assets
2,188,155	151,667	2,339,822	157,568	Net assets - beginning (Component Unit restated)
\$ 1,825,921	157,843	1,983,764	169,522	Net assets - ending

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004
(In Thousands)

	General Fund	Tobacco Securitization Special Revenue Fund	Tobacco Securitization Joint Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS					
Equity in pooled cash and investments	\$ 310,870	245		254,074	565,189
Cash with fiscal agent	10,090			7,296	17,386
Collections in transit	7,334			1,517	8,851
Imprest cash	299			17	316
Investments	2			43,669	43,671
Taxes receivable, net	34,488				34,488
Receivables, net	218,662	902	392	121,563	341,519
Due from other funds	178,321	6		13,468	191,795
Advances to other funds	948			120	1,068
Inventory of materials and supplies	6,941			1,672	8,613
Deposits with others				1,494	1,494
Prepaid items	10			1,285	1,295
Restricted assets:					
Cash with fiscal agent			53,099	6,035	59,134
Investments		352,910		14,312	367,222
Total assets	767,965	354,063	53,491	466,522	1,642,041
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	57,300			15,031	72,331
Accrued payroll	57,152			3,013	60,165
Due to other funds	24,744	7,336		83,036	115,116
Advances from other funds				11,113	11,113
Deferred revenue	77,769			11,384	89,153
Total liabilities	216,965	7,336		123,577	347,878
Fund balances:					
Reserved for encumbrances	84,031			30,427	114,458
Reserved for notes receivable and advances	7,555			32,583	40,138
Reserved for deposits with others				311	311
Reserved for landfill closure	16,170			7,000	23,170
Reserved for inventory of materials and supplies	6,941			1,672	8,613
Reserved for debt service			39,966	38,054	78,020
Reserved for other purposes	98,595		13,525	45,362	157,482
Unreserved:					
Designated for subsequent years' expenditures	122,334			786	123,120
Designated for landfill postclosure and inactive landfill maintenance				76,263	76,263
Undesignated	215,374	346,727			562,101
Unreserved, reported in nonmajor:					
Special revenue funds				99,623	99,623
Capital projects funds				10,864	10,864
Total fund balances	551,000	346,727	53,491	342,945	1,294,163
Total liabilities and fund balances	\$ 767,965	354,063	53,491	466,522	1,642,041

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS**

**June 30, 2004
(In Thousands)**

Total fund balances-governmental funds	\$ 1,294,163
Costs of issuances are reported as expenditures in governmental funds and thus have the effect of reducing fund balance because current financial resources have been used. In the government-wide statements however, bond issuance costs are reported as a deferred charge and amortized over the life of the bond issue.	28,791
When capital assets (land, buildings, equipment, infrastructure) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the County as a whole.	2,581,998
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(20,929)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.	28,895
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, current and long-term, are recorded in the statement of net assets.	(2,199,258)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individuals funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	112,261
Net assets of governmental activities	\$ <u>1,825,921</u>

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
For the Year Ended June 30, 2004
(In Thousands)

	General Fund	Tobacco Securitization Special Revenue Fund	Tobacco Securitization Joint Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 457,062			40,116	497,178
Licenses, permits and franchises	31,233			11,019	42,252
Fines, forfeitures and penalties	40,363			6,132	46,495
Revenue from use of money and property	12,721	2,536	2,041	8,569	25,867
Aid from other governmental agencies:					
State	649,829			551,449	1,201,278
Federal	588,815			112,242	701,057
Other	57,442			12,418	69,860
Charges for current services	246,381			31,256	277,637
Other revenue	32,058		29,961	3,894	65,913
Total revenues	2,115,904	2,536	32,002	777,095	2,927,537
Expenditures:					
Current:					
General	207,600		131	8,452	216,183
Public protection	1,172,110			44,166	1,216,276
Public ways and facilities	23,983			91,443	115,426
Health and sanitation	552,035			10,622	562,657
Public assistance	948,165			105,380	1,053,545
Education	5,798			25,510	31,308
Recreational and cultural	23,709			993	24,702
Capital outlay				54,958	54,958
Debt service:					
Principal			8,930	60,909	69,839
Interest	5,776		24,830	61,897	92,503
Bond issuance costs				4,095	4,095
Total expenditures	2,939,176		33,891	468,425	3,441,492
Excess (deficiency) of revenues over (under) expenditures	(823,272)	2,536	(1,889)	308,670	(513,955)
Other financing sources (uses):					
Sale of capital assets	7			4,037	4,044
Long term debt proceeds	454,113			66	454,179
Transfers in	483,333			292,834	776,167
Transfers (out)	(162,035)	(24,083)		(591,062)	(777,180)
Total other financing sources (uses)	775,418	(24,083)		(294,125)	457,210
Net change in fund balances	(47,854)	(21,547)	(1,889)	14,545	(56,745)
Fund balances - beginning of year	598,661	368,274	55,380	328,472	1,350,787
Increase (decrease) in:					
Reserve for inventory of materials and supplies	193			(72)	121
Fund balances - end of year	\$ 551,000	346,727	53,491	342,945	1,294,163

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(In Thousands)**

Net change in fund balances-total governmental funds	\$ (56,745)
Governmental funds accrue property tax revenue, which is deemed collectible within sixty days. However, in the statement of activities the total amount estimated to ultimately be collected is accrued.	(261)
Adjustment for reserve for inventory of materials and supplies.	121
Long-term revenues are not available as current resources, and therefore are not reported as revenue in the governmental funds.	(864)
The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds.	(4,044)
The book value of the sale of capital assets is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a "loss on sale of fixed assets" recorded as an expense in the statement of activities. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which asset acquisition and donations exceeded depreciation in the current period.	19,527
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service fund's costs for the year.	(3,602)
Repayment of bond principal and other long term obligations are reported as expenditures in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the County as a whole however, the principal and other payments for liabilities reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The County's long term obligations include bonds, loans and notes payable, capital leases, accumulated unpaid employee leave balances, arbitrage rebate, and closure and postclosure costs for the San Marcos landfill. The County's long term debt was reduced by these payments, principal payments to bondholders, and the adjustment to the San Marcos landfill closure and postclosure liability.	127,418
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceed amortization expense in the current period.	2,082
Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for bonds and notes payable and amortization of capitalized bond premiums, discounts and deferred amount of refunded debt that are expended in the governmental funds in the year paid.	627
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements however, issuing debt increases long-term liabilities in the statement of net assets and does not effect the statement of activities.	(454,179)
Liabilities for other long-term obligations are not accrued in governmental funds, but rather are recognized as expenditures when due.	7,686
Change in net assets of governmental activities	\$ <u>(362,234)</u>

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004
(In Thousands)

	Business-Type Activities			(Cont) Governmental
	Enterprise Funds			Activities -
	Sanitation	Other		Internal
	Districts	Enterprise Funds	Total	Service
				Funds
ASSETS				
Current assets:				
Equity in pooled cash and investments	\$ 64,303	5,574	69,877	163,098
Collections in transit	3	656	659	218
Imprest cash		2	2	202
Accounts and notes receivable	15	1,097	1,112	2,994
Due from other funds	280	1,537	1,817	19,731
Advances to other funds	135	9,412	9,547	757
Inventory of materials and supplies				863
Total current assets	64,736	18,278	83,014	187,863
Capital assets:				
Land	1,069	9,608	10,677	
Construction and contracts in progress	5,063	10,453	15,516	47,053
Buildings and equipment	2,182	36,323	38,505	103,431
Infrastructure	63,746		63,746	
Less accumulated depreciation	(27,054)	(19,452)	(46,506)	(51,912)
Total noncurrent assets	45,006	36,932	81,938	98,572
Total assets	109,742	55,210	164,952	286,435
LIABILITIES				
Current liabilities:				
Accounts payable	695	343	1,038	16,373
Accrued payroll		270	270	1,523
Accrued interest				14
Due to other funds	1,462	1,263	2,725	53,301
Claims and judgments				31,168
Advances from other funds	259		259	
Compensated absences		34	34	215
Deferred revenue		280	280	43
Bonds, notes and loans payable		167	167	115
Total current liabilities	2,416	2,357	4,773	102,752
Noncurrent liabilities:				
Compensated absences		311	311	1,937
Claims and judgments				66,621
Bonds, notes and loans payable	195	2,831	3,026	1,863
Total long-term liabilities	195	3,142	3,337	70,421
Total liabilities	2,611	5,499	8,110	173,173
NET ASSETS				
Invested in capital assets, net of related debt	44,552	33,933	78,485	98,572
Unrestricted	62,579	15,778	78,357	14,690
Total net assets	\$ 107,131	49,711	156,842	113,262

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.

Net assets of business-type activities 1,001
\$ 157,843

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004
(In Thousands)**

	Business-Type Activities Enterprise Funds			(Cont)
	Sanitation Districts	Other Enterprise Funds	Total	Governmental Activities - Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 15,765	12,181	27,946	267,932
Miscellaneous				1,367
Total operating revenues	15,765	12,181	27,946	269,299
OPERATING EXPENSES				
Salaries		5,685	5,685	31,788
Repairs and maintenance	3,466	412	3,878	23,218
Equipment rental		662	662	1,024
Sewage processing	9,701		9,701	
Contracted services		2,316	2,316	127,262
Depreciation	1,290	791	2,081	9,869
Utilities		129	129	20,058
Cost of material				18,794
Claims and judgments				29,096
Fuel				5,980
Other operating expenses	1,353	574	1,927	8,400
Total operating expenses	15,810	10,569	26,379	275,489
Operating income (loss)	(45)	1,612	1,567	(6,190)
NONOPERATING REVENUES (EXPENSES)				
Investment income	357	60	417	157
Grants		4,153	4,153	43
Interest expense	(18)	(177)	(195)	(24)
Loss on disposal of equipment				(528)
Other non operating expenses		(1,714)	(1,714)	(134)
Total nonoperating revenues (expenses)	339	2,322	2,661	(486)
Income (Loss) before contributions and transfers	294	3,934	4,228	(6,676)
Capital contributions	683	856	1,539	2,470
Transfers in		24	24	8,341
Transfers (out)		(697)	(697)	(6,655)
Change in net assets	977	4,117	5,094	(2,520)
Total net assets - beginning	106,154	45,594		115,782
Total net assets - ending	\$ 107,131	49,711		113,262

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds are reported with business-type activities.

Change in net assets of business-type activities

1,082
\$ 6,176

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004
(In Thousands)

	Business-Type Activities			(Cont) Governmental
	Enterprise Funds			Activities- Internal Service Funds
	Sanitation Districts	Other Enterprise Funds	Total	
Cash flows from operating activities:				
Cash received from customers	\$ 15,748	11,531	27,279	269,161
Cash received from other funds	89	415	504	
Other cash receipts		1,440	1,440	
Other payments				(244)
Cash payments to suppliers	(10,590)	(5,387)	(15,977)	(213,982)
Cash payments to employees		(3,463)	(3,463)	(31,416)
Cash payments to other funds	(2,640)	(564)	(3,204)	(27,007)
Net cash provided by (used for) operating activities	2,607	3,972	6,579	(3,488)
Cash flows from non-capital financing activities:				
Grants		4,408	4,408	43
Other				
Loan proceeds				1,977
Transfers from other funds		24	24	7,716
Transfers to other funds		(697)	(697)	(6,028)
Advances from other funds				171
Advances to other funds		225	225	
Net cash provided by (used for) non-capital financing activities		3,960	3,960	3,879
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(3,824)	(8,713)	(12,537)	(11,009)
Capital contributions	683	856	1,539	2,286
Proceeds from sale of equipment				615
Principal paid on long-term debt	(19)	(155)	(174)	(860)
Interest paid on long-term debt	(18)	(177)	(195)	(24)
Net cash used for capital and related financing activities	(3,178)	(8,189)	(11,367)	(8,992)
Cash flows from investing activities:				
Interest	389	63	452	205
Net decrease in cash and cash equivalents	(182)	(194)	(376)	(12,275)
Cash and cash equivalents - beginning of year	64,488	6,426	70,914	171,914
Cash and cash equivalents - end of year	64,306	6,232	70,538	159,639
Reconciliation of operating income (loss):				
Operating income (loss)	(45)	1,612	1,567	(6,190)
Other non operating revenues		1,440	1,440	
Adjustments to reconcile:				
Inc (dec) in compensated absences		47	47	(79)
Inc in accrued payroll		92	92	495
Inc (dec) in due to other funds	747	817	1,564	(2,277)
Inc (dec) in accounts payable	543	(844)	(301)	(2,088)
Dec in claims and judgments				(2,949)
Inc in accounts receivable	(15)	(174)	(189)	(58)
Dec in inventory				260
Inc (dec) in deferred revenue		268	268	(4,372)
Dec (inc) in due from other funds	87	(77)	10	3,901
Depreciation	1,290	791	2,081	9,869
Net cash provided by (used for) operating activities	2,607	3,972	6,579	(3,488)
Non-cash investing and capital financing activities:				
Accrued interest income	33	3	36	93
Capital acquisitions included in accounts payable	451	168	619	1,346
Total non-cash investing and capital financing activities	\$ 484	171	655	1,439

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004
(In Thousands)

	Pension Trust Fund	Investment Trust Fund	Agency Funds
ASSETS			
Equity in pooled cash and investments	\$ 9,359	2,396,036	427,739
Cash with fiscal agent	59,593		13,349
Collections in transit		6,161	14,814
Imprest cash		30	4
Investments:			
Domestic equity securities	856,367		
Cash, cash equivalents, and securities for domestic equity swaps and futures	1,304,716		
International equity securities	1,188,889		
Cash, cash equivalents, and securities for international futures	60,222		
U.S. government obligations	293,002		
Domestic corporate bonds	442,670		
Short-term notes	48,350		
International bonds	517,703		
Cash for bond futures	206,426		
Securities lending collateral	375,485		
Alternative equity and real estate	501,238		
Taxes receivable			262,145
Accounts receivable			15,016
Interest and other receivables	60,751		
Due from other funds	9,336	14,170	5,342
Capital assets, net	2,981		
Total assets	<u>5,937,088</u>	<u>2,416,397</u>	<u>738,409</u>
LIABILITIES			
Accounts payable	52,899		
Due to other funds	65	9,154	61,830
Obligations under securities lending	375,485		
Due to other governments			615,478
Amount due for commercial paper notes			61,101
Total liabilities	<u>428,449</u>	<u>9,154</u>	<u>738,409</u>
NET ASSETS			
Held in trust for pension benefits and other purposes	<u>\$ 5,508,639</u>	<u>2,407,243</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2004
(In Thousands)

	Pension Trust Fund	Investment Trust Fund
ADDITIONS		
Contributions:		
Employer	\$ 700,583	
Plan members	33,609	
Additions to pooled investments		19,420,538
Total contributions	734,192	19,420,538
Investment earnings:		
Net increase (decrease) in fair value of investments	862,931	(17,777)
Interest income	67,222	43,383
Securities lending income	5,050	
Other income	56,912	
Total investment earnings	992,115	25,606
Less investment expenses	51,891	
Less securities lending expenses	3,753	
Net investment earnings	936,471	25,606
Total additions	1,670,663	19,446,144
DEDUCTIONS		
Benefits	256,429	
Refunds of contributions	1,536	
Administrative expenses	7,407	
Deductions from pooled investments		19,527,229
Total deductions	265,372	19,527,229
Changes in net assets	1,405,291	(81,085)
Net assets - beginning of year	4,103,348	2,488,328
Net assets - end of year	\$ 5,508,639	2,407,243